

**DEPARTMENT OF GENERAL SERVICES  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2001**



## **AUDIT SUMMARY**

Our audit of the Department of General Services for the year ended June 30, 2001, found:

- an internal control matter that we consider a reportable condition; however, we do not consider it to be a material weakness;
- no instances of noncompliance that are required to be reported;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- adequate corrective action with respect to the prior year audit findings.

Our audit finding is included in the section, "Internal Control Finding and Recommendations," and is described in the recommendation entitled "Improve Controls Over the LAN."

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INDEPENDENT AUDITOR'S REPORT	1-2
INTERNAL CONTROL FINDING AND RECOMMENDATIONS	3
AGENCY HIGHLIGHTS:	
Division of Engineering and Buildings	4
Division of Purchases and Supply	5
Division of Consolidated Laboratory Services	5
FINANCIAL HIGHLIGHTS	5-6
OFFICIALS PAGE	7

November 26, 2001

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

### INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of General Services** (the Department) for the year ended June 30, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures	Accounts Payable
Revenue	Accounts Receivable
Fixed Assets	Inventory

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether General Services' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Department's accounting records. The Department records its financial transactions on the Commonwealth Accounting and Reporting System on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving internal control and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition is described in the section entitled, "Internal Control Finding and Recommendations." We do not believe that the reportable condition included in this report is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

General Services has taken adequate corrective action with respect to audit findings reported in the prior year.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on December 20, 2001.

AUDITOR OF PUBLIC ACCOUNTS

JBS:whb  
whb:32

## **INTERNAL CONTROL FINDING AND RECOMMENDATIONS**

### **Improve Controls Over LAN**

The Department of General Services (General Services) does not have sufficient controls over its internal Local Area Network (LAN) to adequately protect financial and other information on the LAN. During the audit, we found the following conditions.

- Users of the LAN may alternate between two passwords, potentially jeopardizing the integrity of the LAN if another user gains the knowledge of one of those passwords.
- The system suspends user accounts after four failed login attempts. General Services' policy states that the division's or staff unit's workgroup LAN administrator must request re-establishment of suspended accounts. However, the system automatically reestablishes the account after 1 hour.
- Finally, General Services does not have a structured process to monitor internal access to the LAN.

General Services relies on its LAN security protocols to protect its critical files and to compensate for inherent password security weaknesses in its financial reporting system, Peoplesoft. Given the preceding issues, it is feasible that an employee could gain access to restricted areas of the LAN without the Department's knowledge.

DGS should consider strengthening its password policies to prevent the re-usage of the passwords for at least six password change prompts as well as enforce the suspended account policy as written. Further, General Services should consider implementing controls to track and periodically monitor user activity and access to applications on the LAN. Strong controls over the LAN will help ensure the integrity of the information maintained on the LAN and used by the Department.

## **AGENCY HIGHLIGHTS**

The Department of General Services (General Services) provides support services to other agencies and local governments primarily through its three functional divisions:

- Division of Engineering and Buildings
- Division of Purchases and Supply
- Division of Consolidated Laboratory Services

Administrative support for the three divisions comes from the Director's Office within General Services. These services include accounting, internal audit, information systems, purchasing, and human resources. General Services also offers graphic design services to other agencies through its Office of Graphic Design, which falls organizationally under the Director's Office.

General Services funds these support services and their administrative costs predominately through charges for goods and services and accounts for the transactions in Internal Service and Enterprise Funds. General Fund appropriations cover administrative and certain program activities not supported by these service fees.

### **DIVISION OF ENGINEERING AND BUILDINGS**

Engineering and Buildings provides architectural and property management services through three bureaus: Capital Outlay Management, Real Property Management, and Facilities Management. The Bureaus perform the following services.

The Bureau of Capital Outlay Management reviews for compliance with all applicable building code requirements during the design and construction of state buildings. Capital Outlay Management does cost and procurement reviews of proposed state agency construction. Also, Capital Outlay Management develops and maintains the state's policies and procedures on the procurement of professional and construction services through the Commonwealth of Virginia Construction and Professional Services Manual.

The Bureau of Real Property Management administers the policies and procedures regarding acquisition and disposal of real property by state agencies and institutions. Real Property Management assists agencies in purchasing or leasing new facilities and in disposing of interests in state-owned properties. Real Property Management is also involved in the leasing of mineral rights and the establishment of timber management plans on state-owned properties.

The Bureau of Facilities Management provides for the maintenance, repair, and operation of state-owned facilities in the Capitol Square Complex. Facilities Management bills these agencies annually for rental costs, which covers normal expenses incurred for the maintenance and upkeep of the buildings. Facilities Management also performs maintenance and repair work for state-owned buildings not under the purview of General Services. These agencies pay General Services either annually or semi-annually for the work performed under negotiated service agreements. Finally, Facilities Management administers ongoing capital outlay projects assigned to General Services.

## DIVISION OF PURCHASES AND SUPPLY

Purchases and Supply establishes state policies and procedures for purchasing goods and services based on the Virginia Public Procurement Act. Further, they establish statewide goods and service contracts and assist agencies with the purchases of high-dollar goods and non-professional services.

Purchases and Supply is currently working with its service provider to expand the functionality provided through its electronic procurement portal, eVA, launched in March 2001. eVA reflects a major initiative by Purchases and Supply to enhance the procurement process for all state and local government organizations within the Commonwealth as well as gather information centrally concerning the Commonwealth's buying patterns. Purchases and Supply expects to complete by June 2002 the remaining functionalities.

Purchases and Supply also operates the Virginia Distribution Center, which stocks food and nonfood items for resale to state agencies, local governments, and public schools. In the summer of 2001, General Services moved the distribution center to a new warehouse constructed just outside of Richmond.

Finally, Purchases and Supply manages the state and federal surplus property programs, and delivers mail between state agencies.

## DIVISION OF CONSOLIDATED LABORATORY SERVICES

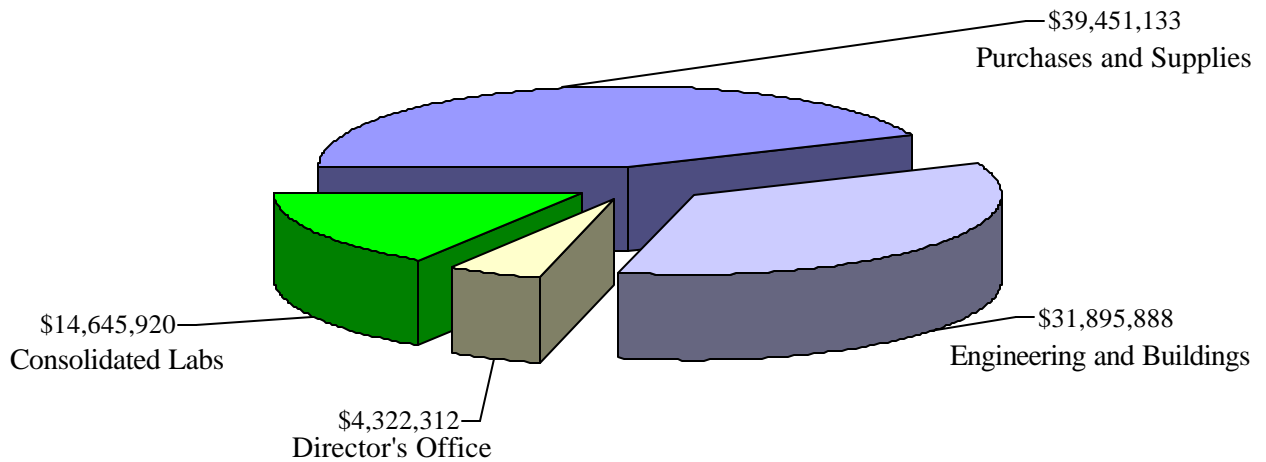
Consolidated Laboratory Services provides analytical testing services to the Commonwealth. The Division examines human specimens for disease control; and tests and analyzes products, foods, and materials regulated by state and federal laws. They also inspect and certify laboratories performing tests in accordance with the Safe Drinking Water Act and FDA dairy regulations. Consolidated Laboratory Services primarily serves the Departments of Agriculture and Consumer Services, Environmental Quality, Health, Labor and Industry, Alcoholic Beverage Control, and the State Police. The Division also provides services to poison control centers, hospitals, waterworks, law enforcement agencies, and others.

## **FINANCIAL HIGHLIGHTS**

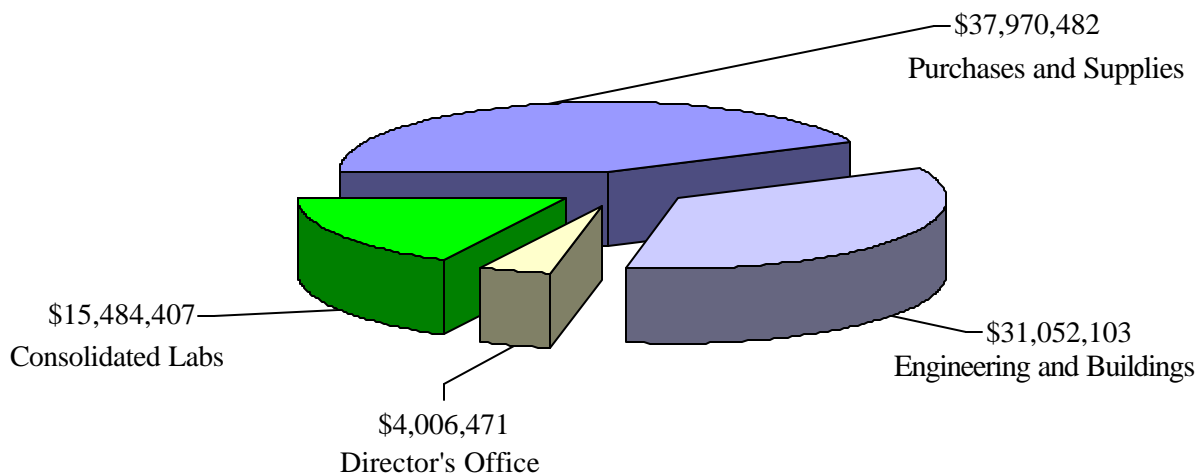
Fiscal Services within the Director's Office provides accounting support for the divisions through three support teams and a separate group that manages all transaction processing. The charts on the following reflect page cash basis revenue and expenditure activity for each of General Services' divisions and the Director's Office for fiscal year 2001.



### Revenues by Functional Area



### Expenditures by Functional Area



In addition, two of the Fiscal Services teams provide administrative support for the following agencies:

- Commonwealth Competition Council
- Commission on Local Government
- Council on Human Rights
- Employee Relations Counselors
- Rights for Virginians with Disabilities
- State Board of Elections
- Virginia Public Broadcasting Board
- Virginia War Memorial Foundation

DEPARTMENT OF GENERAL SERVICES  
Richmond, Virginia

Donald C. Williams  
Director

D.B. Smit  
Deputy Director

William G. Poston  
Deputy Director

Bryan W. Wagner  
Controller

Margaret E. Maupin  
Director of Management Audit  
and Review Services

